

STATE OF INDIANA

**FILED**

**PETITION OF MIDWEST NATURAL GAS CORPORATION FOR AUTHORITY TO CHANGE ITS RATES, CHARGES, TARIFFS, RULES, AND REGULATIONS; TO AUTHORIZE THE ISSUANCE OF LONG-TERM DEBT; AND FOR APPROVAL OF NEW RATES, CHARGES, TARIFFS, RULES, AND REGULATIONS FOR GAS SERVICE RENDERED TO ITS CUSTOMERS.**

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**CAUSE NO. 43229**

MIDWEST NATURAL GAS CORPORATION

MIDWEST NATURAL GAS CORPORATION  
PREFILED DIRECT TESTIMONY OF DAVID A. OSMON

1           1.    Q.     PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2                   A.     My name is David A. Osmon. My business address is 107  
3                         Southeast Third Street, Washington, Indiana 47501.

4           2.    Q.     ARE YOU AFFILIATED WITH THE PETITIONER, MIDWEST  
5                         NATURAL GAS CORPORATION?

6                   A.     Yes. I am the Executive Vice President and Chief Operating Officer  
7                         of the Petitioner.

8           3.    Q.     PLEASE DESCRIBE GENERALLY YOUR RESPONSIBILITIES  
9                         WITH PETITIONER.

10                  A.     In general, I am responsible for all accounting and financial matters.  
11                         In addition, I have some management responsibilities for personnel,  
12                         facilities, and regulatory matters before this Commission and/or with  
13                         other state agencies.

14           4.    Q.     MR. OSMON, ARE YOU ALSO INVOLVED WITH THE  
15                         COMPANY'S OUTSIDE CONSULTANTS?

16                  A.     Yes. Generally, I am the liaison between the company and various  
17                         outside consultants, including the professionals participating in this  
18                         particular rate case.

1           5.    Q.    BEFORE TURNING TO THE SPECIFIC ISSUES INCLUDED IN  
2                   THIS RATE CASE AND ON WHICH YOU ARE OFFERING  
3                   TESTIMONY, MR. OSMON, PLEASE GENERALLY DESCRIBE  
4                   YOUR OWN EXPERIENCES WHICH YOU BELIEVE ARE  
5                   RELEVANT TO THE CONCLUSIONS YOU SET FORTH IN YOUR  
6                   TESTIMONY.

7           A.    I hold a B.S. degree in accounting and am licensed as a Certified  
8                   Public Accountant in the State of Indiana. Additionally, I have been  
9                   involved with this particular company since 1987. I am a member of  
10                  various state and national associations involved with the accounting  
11                  practice and the utility industry. Finally, I have participated with  
12                  other members of the company's management in the decisions that  
13                  have been made relative to the matters described in this rate case.

14          6.    Q.    MR. OSMON, HAVE YOU PREVIOUSLY TESTIFIED BEFORE  
15                   THIS COMMISSION?

16          A.    Yes. I have testified before this Commission on numerous  
17                  occasions, both on behalf of Midwest Natural Gas as well as the  
18                  natural gas industry in the various forums which the Commission  
19                  has hosted over the last several years.

20          7.    Q.    IS THE INFORMATION SET FORTH IN THE PETITION WHICH  
21                   INITIATED THIS CAUSE ACCURATE?

1 A. Yes, it is. As reflected by the verification I have attached here.

2 8. Q. MR. OSMON, WOULD YOU PLEASE DESCRIBE GENERALLY  
3 WHAT THE PETITIONER IS SEEKING BY WAY OF THE PETITION  
4 AND ITS EVIDENCE IN THIS CAUSE.

5 A. This case is essentially a base-rate case. We are seeking to change  
6 the rates Midwest charges its customers in order to increase  
7 operating revenue by 8.91%, as reflected in Mr. Duane Mercer's  
8 exhibits. Additionally, I would note that we have retained Mr. Kerry  
9 Heid to perform a cost-of-service study, and, thus, we are seeking to  
10 change our existing tariffs in light of such cost-of-service study.  
11 Finally, we are seeking authority to issue additional long-term debt.

12 9. Q. HOW MUCH OF AN INCREASE IS PETITIONER SEEKING IN ITS  
13 NET OPERATING INCOME?

14 A. None. In fact, Petitioner's proposal in this case would reflect a  
15 decrease from the currently authorized net operating income for  
16 Midwest.

17 10. Q. WITH RESPECT TO THE PROPOSED INCREASE OF SLIGHTLY  
18 BELOW 9%, WHAT ARE THE BASIC DRIVING FACTORS?

19 A. There are various specific factors described by Mr. Mercer's and Ms.  
20 Mann's testimony and exhibits. But the basic factors relate to

1 our cost of capital. Mr. Heid of Heid Rate and Regulatory Services  
2 will be providing specific information on rates, charges, and tariffs.

3 14. Q. MR. OSMON, ARE YOU FAMILIAR WITH THAT PORTION OF THE  
4 RATE BASE WHICH INCLUDES PETITIONER'S UTILITY PLANT?

5 A. Yes, I am familiar with the physical plant and the value of such plant.

6 15. Q. ARE YOU FAMILIAR WITH THE COMPANY'S INVESTMENT IN  
7 UTILITY PLANT ON A FAIR-VALUE BASIS?

8 A. Yes, I am. Based upon various analyses, including a Handy-  
9 Whitman analysis, I am familiar with the value of the company's  
10 utility plant on a fair-value basis.

11 16. Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS  
12 COMMISSION ON THE FAIR VALUE OF YOUR COMPANY'S  
13 PLANT?

14 A. Yes, I have.

15 17. Q. HAVE YOU REACHED AN OPINION AS TO WHAT AN  
16 APPROPRIATE FAIR VALUE WOULD BE OF THE COMPANY'S  
17 PLANT IN SERVICE AS OF THE TEST YEAR?

18 A. Yes, I have. I believe that the fair value of Petitioner's plant in  
19 service as of the test year is at least \$22,800,000.

1 18. Q. IN ADDITION TO UTILITY PLANT, DOES THE COMPANY ALSO  
2 HAVE WORKING CAPITAL, MATERIALS, AND SUPPLIES WHICH  
3 ARE INCLUDED IN ITS RATE BASE?

4 A. Yes, it does.

5 19. Q. IS MIDWEST'S RATE BASE USED AND USEFUL FOR  
6 RENDERING SERVICE TO ITS CUSTOMERS?

7 A. Yes, it is.

8 20. Q. MR. OSMON, IT APPEARS THAT MIDWEST IS ALSO  
9 PROPOSING TO USE ITS MIDWEST NATURAL GAS TARIFF FOR  
10 THE CUSTOMERS THAT HAVE PREVIOUSLY BEEN SERVED AS  
11 PART OF ITS PEOPLE'S GAS & POWER DIVISION. IS THAT  
12 CORRECT? IS THAT PART OF THE OPERATIONAL MERGER  
13 OF PEOPLE'S GAS & POWER AND MIDWEST PREVIOUSLY  
14 APPROVED BY THIS COMMISSION?

15 A. Yes, this is the next step in that process. Perhaps I should explain  
16 the history of this merger and why it is now appropriate to use  
17 Midwest's tariffs for all Midwest customers. Prior to the last rate  
18 case, People's Gas & Power had been for a number of years a  
19 wholly-owned subsidiary of Midwest Natural Gas. Though a  
20 subsidiary, Peoples had its own rates, charges, and tariffs. From the  
21 time Midwest purchased Peoples in 1981, Peoples maintained

1 separate base rates, as well as separate pipeline contracts. The two  
2 companies shared an office in Bloomfield, Indiana, and also shared  
3 some personnel. Over time, Midwest began to provide more and  
4 more personnel, more and more operational support, and the two  
5 companies eventually became physically connected.

6 In the last rate cases for Midwest and Peoples, we filed  
7 separate rate cases as we had previously done. However, as of  
8 those filings, we were finally able to combine pipeline contracts,  
9 eliminating a remaining reason to keep the two companies separate.  
10 Through negotiations with the Office of Utility Consumer Counselor, it  
11 was determined that the best course of action was to operationally  
12 merge these companies. The Commission approved that operational  
13 merger in Cause Nos. 42246 and 42247. The result was that we  
14 would no longer keep two sets of books, we no longer made separate  
15 filings with the Commission, and we combined all tariffs, rules, and  
16 regulations except for base rates. Base rates remained separate due  
17 to the historical differences between Peoples and Midwest, including  
18 block sizes. We also recognized that the Peoples Gas & Power  
19 Company name was familiar with our customers and that some  
20 period of time should elapse as we phased in our operation under the  
21 Midwest name. That phase in was complete more than two years

1                   ago. We now see the combination of base rates as the next and final  
2                   step in a long process which began over 25 years ago. It is now  
3                   appropriate to bill all Midwest customers under the Midwest base rate  
4                   tariffs.

5           21.    Q.    WITH THE APPLICATION OF THE MIDWEST TARIFF TO THE  
6                   CUSTOMERS WHO WERE PREVIOUSLY SERVED AS THE  
7                   PEOPLE'S GAS & POWER DIVISION OF MIDWEST, WILL THOSE  
8                   CUSTOMERS SEE A SIGNIFICANT INCREASE?

9                   A.    No. Part of Mr. Heid's charge has been to look at ways of  
10                  minimizing any impact on our customers who were served through  
11                  the People's Gas & Power Division.

12           22.    Q.    WILL THE COMPANY REFER TO THE PEOPLE'S GAS & POWER  
13                   COMPANY AS A SEPARATE DIVISION OF MIDWEST NATURAL  
14                   GAS?

15                  A.    No. All references including tariffs, rules and regulations, and all  
16                  base rates will refer to Midwest Natural Gas Corporation.

17           23.    Q.    IS IT THE COMPANY'S INTENT TO DISSOLVE PEOPLE'S GAS &  
18                   POWER COMPANY AS AN INDIANA CORPORATION?

19                  A.    No.

20           24.    Q.    WHY NOT?



1 A. People's Gas & Power Company holds numerous easements in its  
2 name acquired often decades ago and in which natural gas mains  
3 have been constructed. Rather than tracking down all those  
4 easements in all the areas served, determining which are assignable  
5 to Midwest Natural Gas, and then specifically recording an  
6 assignment, we believe it is easier, and cheaper, to simply keep the  
7 corporation in existence and allow Midwest Natural Gas to continue  
8 providing service through the mains that it owns across those  
9 easements.

10 25. Q. MR. OSMON, IS THE COMPANY REQUESTING RECOVERY OF  
11 ITS COSTS ASSOCIATED WITH THE NORMAL TEMPERATURE  
12 ADJUSTMENT PROCEEDING, CAUSE NO. 43107?

13 A. Yes.

14 26. Q. WERE THOSE EXPENSES INCURRED WITHIN THE TEST YEAR  
15 OR THE TWELVE MONTHS FOLLOWING THE CLOSE OF THE  
16 TEST YEAR?

17 A. Yes.

18 27. Q. DO YOU EXPECT THESE WILL BE RECURRING EXPENSES?

19 A. Yes. We believe that the expenses as represented by the NTA will  
20 continue to be incurred while these rates are in effect. Such

1 reoccurrence may be due to the NTA itself, or through the  
2 Commission's investigation under Cause No. 43180, or future  
3 decoupling proceedings, or in participation in forums similar to the  
4 various forums which the Commission has initiated to review gas  
5 company operations. Further, we anticipate on-going meetings with  
6 the OUCC in the collaborative process which initiated our NTA. As  
7 such, we expect that the expenses that we incurred in the NTA  
8 represent a level of ongoing expense.

9 28. Q. MR. OSMON, IS THE COMPANY REQUESTING A RECOVERY OF  
10 ITS COSTS ASSOCIATED WITH THE ENERGY EFFICIENCY  
11 PROGRAM WHICH WAS ALSO PART OF THE NTA  
12 AGREEMENT?

13 A. No. We believe it is more appropriate at this time to recover the  
14 costs associated with putting the NTA into place. Further, as noted  
15 above, we expect this level of expense to continue for the  
16 foreseeable future. While I suppose we could seek recovery of the  
17 cost of the NTA, the cost of the Energy Efficiency Program, and the  
18 expected ongoing future costs associated with the matters described  
19 above, we felt it more reasonable to simply recover the costs  
20 associated with this implementation of the NTA in these rates.

1        29.    Q.    YOUR PETITION REQUESTS AUTHORITY TO ENTER INTO  
2                   LONG-TERM DEBT. PLEASE EXPLAIN WHAT MIDWEST IS  
3                   REQUESTING AND WHY.

4                   A.    Petitioner is seeking authority to borrow \$480,000 for a period of ten  
5                   years from the Old National Bank. The interest rate, while it is  
6                   variable, is tied to the average yield of U.S. Treasury securities.  
7                   That interest rate currently is 7.7%. The purpose of this debt would  
8                   be to fund the purchase of office buildings in Bloomfield and  
9                   Scottsburg, Indiana, which have historically been rented by Midwest.  
10                  We believe it is appropriate to purchase these buildings as they  
11                  have and will continue to serve as our local service offices in these  
12                  communities. One office is our primary service office for the old  
13                  People's area, and the other office is the primary service office for  
14                  our customers along I-65. We in turn have included this debt as  
15                  part of our capital structure, the buildings as part of our plant, and  
16                  eliminated the rent from our operating expenses, all on a proforma  
17                  basis.

18        30.    Q.    MR. OSMON, HAVE YOU REVIEWED THE TEST YEAR  
19                   INFORMATION, PROPOSED ADJUSTMENTS, CAPITAL  
20                   STRUCTURE, COST OF CAPITAL, RATES, CHARGES, TARIFFS,  
21                   AND OTHER PROPOSALS WHICH ARE SUGGESTED BY MR.

1 MERCER, MS. MANN, AND/OR MR. HEID IN THEIR PREFILED  
2 TESTIMONY EXHIBITS? FURTHER, ARE THOSE PROPOSALS  
3 REASONABLE?

4 A. Yes, I have reviewed the proposals, along with our president, have  
5 discussed this information and our consultants' proposals on  
6 numerous occasions. We have made various decisions following  
7 receipt of those proposals, including what should be presented to  
8 the Commission in this request. Finally, I believe that the proposals  
9 contained in the material as filed by those consultants are  
10 reasonable.

11 31. Q. MR. OSMON, DOES THIS CONCLUDE YOUR PRE-FILED DIRECT  
12 TESTIMONY IN THIS CAUSE?

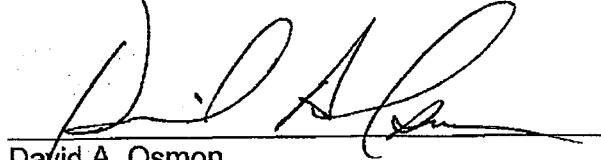
13 A. Yes, it does.  
14  
15  
16

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**VERIFICATION**

I affirm under the penalties of perjury that the petition which initiated this Cause is and remains true to the best of my knowledge, information and belief as of the date here filed.

MIDWEST NATURAL GAS CORPORATION

A handwritten signature in dark ink, appearing to read 'D. A. Osmon', is written over a horizontal line.

David A. Osmon  
Executive Vice-President